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Corp report

Jim

Van Der Hout
ASSOCIATES LIMITED

ANNUAL REPORT 1971

AR43

Van Der Hout
ASSOCIATES LIMITED

Semi-Annual Report to Shareholders
June 30, 1971

VAN DER HOUT ASSOCIATES LIMITED

HEAD OFFICE, 3600 LAKE SHORE BOULEVARD WEST, TORONTO, CANADA

Van Der Hout

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ASSOCIATES LIMITED

TO OUR SHAREHOLDERS:

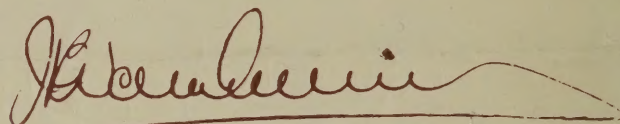
I am pleased to report that the second quarter of 1971 produced earnings that were up twenty-two per cent over the second quarter last year, resulting in net earnings of \$277,285 for the first half of 1971. This is an increase of seven and one-half per cent over 1970, in spite of a strike of six weeks duration in our Gabriel of Canada shock absorber division.

Customer demand is extremely high for our products. Production capability is being increased and the extra costs presently being incurred to provide goods for our customers are expected to be eliminated in the fourth quarter. In spite of these costs Gabriel's profitability is at a new high and shipments in the month of June, 1971 were the highest in the Company's history.

The Company has embarked on a research and development programme in order to participate in the new market for energy absorbing devices for bumpers on automobiles which is developing as a result of new safety legislation. This new market is expected to approach one billion dollars per annum. Shock absorbing bumpers will be required on all 1973 cars, production of which will begin mid-1972.

It is anticipated that the Company will be in a position to successfully capture a sufficient portion of this new market, commencing with the 1974 cars (mid-1973), to put the Earnings and Return on Equity experience of the Company into an even more dramatic trend than previously experienced.

In summary, each segment of our organization reported increased sales and earnings for the first half of this year and in spite of our first quarter labour difficulties, we expect the sales and earnings trend to continue.



J. B. Van Der Hout
President

STATEMENT OF INCOME (UNAUDITED)

For the six months ended June 30, 1971

	1971	1970 (Note 1)
Net Sales – Van Der Hout Associates Limited and its subsidiaries	\$1,747,750	\$1,574,637
– Gabriel of Canada Limited and its subsidiary	8,159,886	6,497,169
Total Net Sales under management	9,907,636 ✓	8,071,806 ✓
Operating income – Van Der Hout Associates Limited and its subsidiaries	183,426	136,410
Less: Income taxes	91,691	60,050
Minority interest	4,570	3,430
	<u>96,261</u>	<u>63,480</u>
	87,165	72,930
Equity in net earnings of Gabriel of Canada Limited and its subsidiary	190,120	185,149
Net Income	\$ 277,285 ✓	\$ 258,079 ✓
Per share income (Note 3)	32.8¢ ✓	30.6¢ ✓

STATEMENT OF SOURCE AND APPLICATION OF FUNDS (UNAUDITED)

For the six months ended June 30, 1971

	1971	1970
Source of Funds		
Operations		
Net income	\$ 277,285	\$ 258,079
Add back items not involving a current outlay or (receipt) of funds:		
Equity in net earnings of Gabriel	(190,120)	(185,149)
Depreciation and amortization	10,836	7,265
Minority interest in profit	4,570	3,664
	<u>102,571</u>	<u>83,859</u>
Proceeds on disposal of fixed assets	—	2,000
Repayment of advance	—	1,000
Proceeds from issue of common shares (Note 2)	40,000	—
	<u>142,571</u>	<u>86,859</u>
Application of Funds		
Reduction of long-term debt	2,000	2,000
Additions to fixed assets	23,253	8,906
Minority interest in preferred shares redeemed by subsidiary	4,900	—
	<u>30,153</u>	<u>10,906</u>
Increase in working capital	112,418	75,953
Working Capital at beginning of period	765,515	606,071
Working capital at end of period	877,933	682,024

Notes:

- (1) Comparative figures for 1970 have been reclassified within the statement. This results in no change to sales or net earnings previously reported.
- (2) During the second quarter the Company issued 10,000 Common shares at \$4.00 pursuant to an employee stock option agreement.
- (3) Earnings per share are calculated using the weighted average number of shares outstanding during the period.

HIGHLIGHTS

	1971	1970
SALES – Van Der Hout Associates Limited (Consolidated) .	\$ 3,479,941	\$ 3,046,827
Gabriel of Canada Limited (Consolidated)	16,483,840	14,585,420
TOTAL SALES UNDER MANAGEMENT	<u>\$19,963,781</u>	<u>\$17,632,247</u>
NET EARNINGS	\$ 624,808	\$ 586,242
EARNINGS PER SHARE	\$.74	\$.70
WORKING CAPITAL	\$ 904,826	\$ 743,974
SHAREHOLDERS' EQUITY	\$ 3,713,995	\$ 2,946,220
RETURN ON EQUITY	16.8%	19.7%
NUMBER OF SHARES OUTSTANDING	852,166	842,166
NUMBER OF REGISTERED SHAREHOLDERS	1,231	1,400

CORPORATE DIRECTORY

DIRECTORS: BARRY S. ARBUS, * Partner, Lyons and Arbus, Solicitors, Toronto
 ROY A. EDWARDS, Assistant to the President, Toronto
 K. GORDON GREEN, * Director, Nesbitt, Thomson and Company, Toronto
 EDWARD E. NOONAN, Secretary, Toronto
 JOHN H. SANDERSON, President, J. C. Adams Co. Limited, King, Ontario
 JOHN B. VAN DER HOUT*, President, Toronto
 VICTOR L. VAN DER HOUT, Vice-President, Toronto

* Member of Audit Committee

OFFICERS: JOHN B. VAN DER HOUT, President
 ROY A. EDWARDS, Assistant to the President
 VICTOR L. VAN DER HOUT, Vice-President
 EDWARD E. NOONAN, Secretary
 MELVYN A. STEIN, Treasurer

HEAD OFFICE: 3600 Lakeshore Blvd. West, Toronto, Ontario

TRANSFER AGENTS: Guaranty Trust Company of Canada, Toronto

AUDITORS: Laventhol Krekstein Horwath & Horwath, Chartered Accountants, Toronto

LISTED: Toronto Stock Exchange
 Canadian Stock Exchange

To our shareholders:



1971 was again a year of record sales and earnings. Sales under management in 1971 were \$19,964,000 compared to \$17,632,000 in 1970 – an increase of thirteen per cent. Net income in 1971 was \$625,000 compared to \$586,000 in 1970 – an increase of six per cent, reflecting some of the adversities I will describe below. Return on investment was down from the twenty per cent achieved in 1970 because of the problems encountered but was nonetheless an impressive seventeen per cent.

For the first time in our history we suffered labour strikes. The company felt a responsibility to resist wage and other demands that did not bear any reasonable relationship to productivity gains. The result was a six week strike in our GABRIEL division, a five week strike in our ORANGEVILLE division and an eleven week strike in our GODERICH division. Each of these disputes was settled but the interruption to normal activities was very costly.

The advent of the ten per cent U.S. surcharge in August, caused us to make special efforts to protect our markets in the United States. In the longer term the company is moving to restructure marketing efforts to increase penetration into markets other than the United States.

In our export markets, the floating Canadian dollar, now virtually at par with the U.S. dollar, has for all practical purposes ceased to be an export problem as expansion and modernization of plant facilities, improved operating techniques, and productivity act to reduce costs. Where we import goods for distribution in Canada, the relationship between the U.S. and Canadian dollar has reduced costs and, consequently, improved margins.

There has been much adverse publicity on the Auto Pact and the likely effect that changes might have on companies such as ours. Our company was able to achieve dramatic growth in the early years of the Pact and the effect of any changes to the Pact now, has been exaggerated out of all proportion. Since about 1968 car manufacturers have been achieving more than their

required CVA (Canadian Value Added) from the assembly of vehicles in Canada, rather than from the purchase of parts supplied by Independent Parts Manufacturers in Canada. We have been selling goods throughout North America because of our competitive position, rather than the necessity on the part of the car manufacturer to have additional CVA.

It is with a great deal of optimism that we view our prospects for 1972 and beyond.

In 1971 the company embarked on a special research and development programme in order to participate in the new market developing as a result of new safety regulations. Bumpers on all automobiles, commencing with the 1973 models, which will begin to be built in mid-1972, must be capable of absorbing the energy of impacts of prescribed force without damage to the vehicle.

The company's research and development effort on energy absorbing devices for automobile bumpers is progressing at a satisfactory rate and it is anticipated that we will be in a position to successfully capture a portion of this significant new market, commencing with the 1974 cars (mid-1973). Projecting our anticipated share of this substantial new market, we can see a five fold increase in sales volume by the mid to late nineteen-seventies.

For 1972 we anticipate dramatic earnings growth reflecting more accurately the potential of the company, unhampered by labour dispute and restrictive tariffs, and of even greater significance, reflecting the cost savings now being achieved by our recent modernization and expansion programmes.

As volume grows, each segment of that volume must be constantly examined with a view to eliminating marginally profitable business at the point where it begins to make demands upon facilities which are disproportionate to its contribution to profits. As circumstances permit, such volume is pruned and replaced with higher margined business. This has been a continuing process for us, and another such programme was undertaken in the fourth quarter of 1971 which may result in lower sales for 1972 but will almost certainly yield higher profits.

The company is well established to take advantage of opportunities as they arise and in light of the prospects for the markets we serve, we feel confident of achieving the growth goals we have set.

On behalf of myself and the Board of Directors, I wish to thank our management and personnel for the superlative effort put forth in what was an extremely trying year.

On behalf of the Board,

J. B. VAN DER HOUT,
President.

Van Der Hout

ASSOCIATES LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	1971	1970
Sales	\$3,479,941	\$3,046,827
Cost of Sales	2,289,236	2,008,211
Selling, general and administrative expenses	777,886	709,761
Depreciation and amortization of fixed assets	23,386	21,226
	<u>3,090,508</u>	<u>2,739,198</u>
Income before income taxes and minority interest	389,433	307,629
Less:		
Income taxes	195,295	126,870
Minority interest	13,596	17,319
	<u>208,891</u>	<u>144,189</u>
	180,542	163,440
Equity in net earnings of Gabriel of Canada Limited	444,266	422,802
Net income	\$ 624,808	\$ 586,242
Earnings per share	74¢	70¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings, beginning of year, as restated (Note 9)	\$2,086,943	\$1,500,701
Net income	624,808	586,242
Retained earnings, end of year	<u>\$2,711,751</u>	<u>\$2,086,943</u>

SEE ACCOMPANYING NOTES.

Van Der Hout

ASSOCIATES LIMITED

(Incorporated under the laws of the Province of Ontario)

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31,	
	1971	1970
		(Restated) (Note 9)
CURRENT:		
Bank	\$ 43,341	\$ —
Accounts receivable, trade	415,262	374,556
Sundry receivables and prepayments	60,861	39,473
Merchandise inventory, at lower of cost and net realizable value	1,119,054	831,147
Total current assets	1,638,518	1,245,176
INVESTMENTS AND ADVANCES:		
Interest in Gabriel of Canada Limited (Note 2)	2,429,126	1,862,371
FIXED (Note 3):		
Property, plant and equipment, at cost	575,149	538,631
Less accumulated depreciation and amortization	151,871	128,485
	423,278	410,146
OTHER:		
Cash surrender value of life insurance	44,706	42,356
	<u>\$4,535,628</u>	<u>\$3,560,049</u>

Approved on behalf of the Board of Directors:

J. B. Van Der Hout (Director)

E. E. Noonan (Director)

423-6965

LIABILITIES

	December 31,	
	1971	1970
		(Restated) (Note 9)
CURRENT:		
Bank indebtedness (secured)	\$ —	\$ 122,691
Accounts payable and accrued liabilities	644,645	239,866
Corporation income taxes	60,147	109,745
Commitment to minority interest (Note 4)	24,900	24,900
Current portion of mortgage payable	4,000	4,000
Total current liabilities	733,692	501,202
Long-term debt:		
6% mortgage payable, due June 1, 1975	14,000	18,000
Less current portion	4,000	4,000
	10,000	14,000
Minority interest (Note 4)	77,941	98,627

SHAREHOLDERS' EQUITY

Capital:		
Authorized:		
1,500,360 Common shares		
Issued:		
852,166 (842,166 – 1970) (Note 5)	682,504	642,504
Retained earnings	2,711,751	2,086,943
Contributed surplus (Note 6)	339,262	216,773
	3,733,517	2,946,220
Deduct:		
2,600 Shares acquired and held for future disposition (at cost)	19,522	—
	3,713,995	2,946,220
	\$4,535,628	\$3,560,049

SEE ACCOMPANYING NOTES.

AUDITORS' REPORT

To the Shareholders of Van Der Hout Associates Limited

We have examined the consolidated balance sheet of Van Der Hout Associates Limited and its subsidiaries as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Ontario
January 25, 1972.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH
Chartered Accountants

Van Der Hout

ASSOCIATES LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE & APPLICATION OF FUNDS

	Year Ended December 31,	
	1971	1970
SOURCE OF FUNDS:		
Operations:		
Net income	\$624,808	\$586,242
Add back items not involving a current outlay or (receipt) of funds:		
Equity in net earnings of Gabriel	(444,266)	(422,802)
Depreciation and amortization	23,386	21,226
Minority interest in income	9,114	11,343
Increase in cash surrender value of life insurance ..	(2,350)	—
	210,692	196,009
Payment of loan receivable	—	10,000
Proceeds from reduction of key men insurance	—	14,045
Proceeds from issue of shares (Note 5)	40,000	—
	250,692	220,054
APPLICATION OF FUNDS:		
Acquisition of Company's capital stock	19,522	—
Payment to minority interest (Note 4)	29,800	24,900
Reduction of long-term debt	4,000	4,000
Additions to fixed assets (net)	36,518	31,710
	89,840	60,610
Increase in working capital	160,852	159,444
Working capital at beginning of year, as restated (Note 9)	743,974	584,530
Working capital at end of year	\$904,826	\$743,974

SEE ACCOMPANYING NOTES.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1971

1. Basis of consolidation:

The consolidated financial statements include the accounts of all subsidiary companies. These are:

Jaco Catalogue Equipment Limited	100% owned
J. C. Adams Company Limited	100% owned
Nelmor Corporation (Canada) Limited	100% owned
Permatex-Pep Limited	51% owned

2. Investments:

The Company owns 49% of the issued common shares of Gabriel of Canada Limited and 49.8% of its issued non-voting preference shares.

The investment in Gabriel is accounted for on the equity basis. Management is provided by the Company and Gabriel represents a significant part of the Company's activities. The Company is of the opinion that the disclosure afforded by this method of presentation is both informative and desirable in order to present fairly the Company's financial position and the results of its operations, even though Gabriel is precluded from redeeming preference shares or declaring dividends until such time as loans made to finance its expansion are repaid.

Following is a summary of the consolidated assets and liabilities of Gabriel at December 31, 1971:

ASSETS	(000's)	LIABILITIES	(000's)
Current assets	\$ 5,393	Current liabilities	\$ 2,969
Fixed assets (net)	4,639	Long-term debt	1,684
Other	275	Deferred taxes	707
		EQUITY	
		Van Der Hout	2,429
		Other	2,518
	<u>\$10,307</u>		<u>\$10,307</u>

3. Land, plant and equipment:

The fixed assets consist of the following:

	Cost	Accumulated Depreciation	Net
Land	\$ 56,000	\$ —	\$ 56,000
Machinery and equipment	207,793	125,100	82,693
Buildings	311,356	26,771	284,585
	<u>\$575,149</u>	<u>\$151,871</u>	<u>\$423,278</u>

Fixed assets are being depreciated at various rates based on their estimated useful lives.

4. Minority interest:

The minority interest consists of:

1. 3,320 6% third preference shares of Jaco Catalogue Equipment Limited, par value \$15	\$ 49,800
2. 49% of the issued capital of Permatex-Pep Limited and related retained earnings	53,041
	<u>102,841</u>
Less portion of Jaco preference shares redeemable in 1972	24,900
	<u>\$ 77,941</u>

The Company has given the following undertaking to the preference shareholders of Jaco:

(a) To cause the 6% dividend to be declared each year on the outstanding third preference shares of Jaco.

(b) To cause the redemption of the third preference shares at par value over a period of five years, 20% each year, the first such redemption having been made in 1969.

In 1971, 1,660 shares were redeemed and the dividend of \$4,482 was paid and included as minority interest in the income statement.

Payments to minority interests in 1971 include:

Redemption of preference shares:	
Jaco Catalogue Equipment Limited	\$24,900
Permatex-Pep Limited	4,900
	<u>\$29,800</u>

5. Stock options:

The Company granted options to certain key employees to purchase 50,000 common shares of which 10,000 were exercised and issued in 1971. In addition, the Company has agreed to provide a further 120,000 common shares for key employee options subject only to the necessary approval of regulatory bodies. All options are to be exercisable for eighteen month periods from the following dates:

40,000 @ \$5 from October 31, 1970
40,000 @ \$6 from October 31, 1971
40,000 @ \$7 from October 31, 1972
40,000 @ \$8 from October 31, 1973

Based upon the Company's present rate of return and the income which can be imputed upon the proceeds, there would be no dilution of earnings as a result of exercising these options.

6. Contributed surplus:

Gabriel of Canada Limited has received funds under a government assistance program, of which only 50% is repayable. The remaining 50% is forgiven upon Gabriel meeting certain terms and conditions, one of which is the repayment of the other 50%. The portion being forgiven is being treated as contributed surplus.

7. Commitments:

The Company and its subsidiaries occupy certain premises under leases which expire at various dates up to 1976. Exclusive of certain occupancy costs and escalations resulting from property tax increases, the annual rental commitments are as follows:

1970 - 1973	— \$46,816
1974 - 1976	— 41,200

The Company has guaranteed a lease which expires in 1977 for premises occupied by Gabriel of Canada Limited. The annual rental exclusive of certain occupancy costs amounts to \$15,935.

8. Remuneration of management and others:

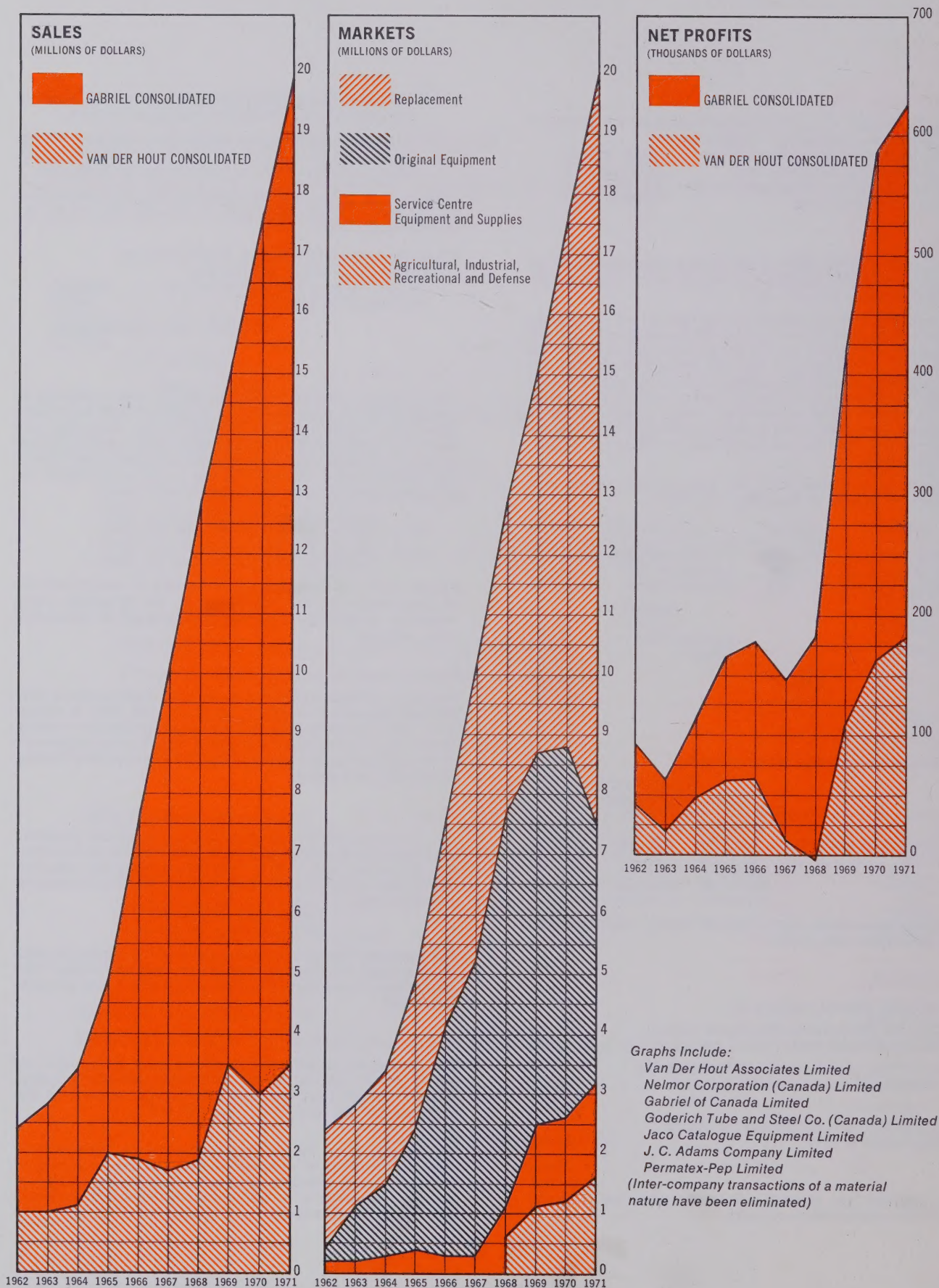
The aggregate direct remunerations paid or payable by the Company and its consolidated subsidiaries, including Gabriel, to the directors and other senior officers of the Company for the year 1971, was \$303,415.

9. As a result of an income tax reassessment applicable to 1969, the balance of retained earnings at the beginning of 1970 has been restated to show a retroactive charge of \$21,540 representing the net additional taxes and expenses incurred by the Company.

Van Der Hout

ASSOCIATES LIMITED

AND SUBSIDIARY COMPANIES



AUTOMOTIVE REPLACEMENT MARKET

Hydroshox shock absorbers
Adjustomatic shock absorbers
Adjustable E shock absorbers
Load Carriers
Truck and Bus shock absorbers
Racing shock absorbers
Bendable tail and exhaust pipe
Scavenger pipes
Resinator eliminator kits
Power steering hoses
Power steering pumps
Windshield wiper blades and refills
Windshield wiper arms
Windshield wiper hose
Windshield washers
Radiator pressure caps
Gasoline caps
Oil filler caps
Thermostats and gaskets
Fuel emission control caps

Heater parts
Air conditioner parts
Electric motors
Engine pre-heaters
Specialty hardware
Throttle ball joints
Brake parts
Push-Pull controls
Copper tubing, fuel line hose
Dash controls, drain plugs
Expansion plugs
Bundyflex metal brake liners
Transmission cooler lines
Fuel and oil lines
Cigar and cigarette lighters
Winches
Tie-Downs and hitches
Sun visors
Fuel filters

RECREATIONAL MARKET

Snowmobile timing gauges
Winches
Tie-Downs and hitches
Trailer jacks, stands and stabilizers
Shock absorbers for golf carts
Snowmobile and marine service
products kits

Plastic cleaner
CRC-666 (Marine) corrosion resistor
lubricant
Marine Lectra Clean
Shock absorbers for ski lifts
Snowmobile fuel filters
Snowmobile ski shock conversion kits

AUTOMOTIVE SERVICE CENTRE AND GARAGE MARKET

Tire changers
Tire spreaders
Tire testers
Hydraulic jacks
Brake Drum lathes
Mobile Brake shops
Disc Brake facing sets
Lathe accessories
Brake shoe grinders and accessories
Engine repair tools – reamers, hones,
wrenches, etc.
Wheel balancing equipment
Service station signal gongs
Oilers
Grease and suction guns
Lubrication spouts
Fuel filters
Tire pumps
Hoists
Garage creepers
CRC-556 corrosion resistor lubricant
Lectra-motive cleaner
Asphaltic sealer – undercoating
Silicone lubricant

Micrometers
Dial indicators
Calipers
Torque wrenches
Copper tubing benders, cutters
Crimping tools
Flaring tools
Headlight aimers
Electronic oil testers
Counter catalogue racks
Sealants and chemical service products
Gasket forming compounds
Gasket shellac and cement
Cooling system additives
Engine and transmission additives
Grinding compound
Passenger car bubble balancers
Wheel balancing weights
Automatic air line gauges
Air line fittings
Quick hose couplers
Tire gauges
Radiator fillers
Fluid pumps

AUTOMOTIVE ORIGINAL EQUIPMENT MARKET

Shock absorbers
Tail pipes
Exhaust pipes

AGRICULTURAL MARKET

Shock absorbers
CRC-556 corrosion resistor lubricant

DEFENCE MARKET

Shock absorbers

INDUSTRIAL MARKET

Shock absorbers for electrical generators
Shock absorbers for railway cars
Shock absorbers for fire doors and windows
Catalogue desk racks
Catalogue carrying cases

Index sheets and tabs
Pipe joint compound
Form-A-Gasket
Castered wheels

Van Der Hout
ASSOCIATES LIMITED